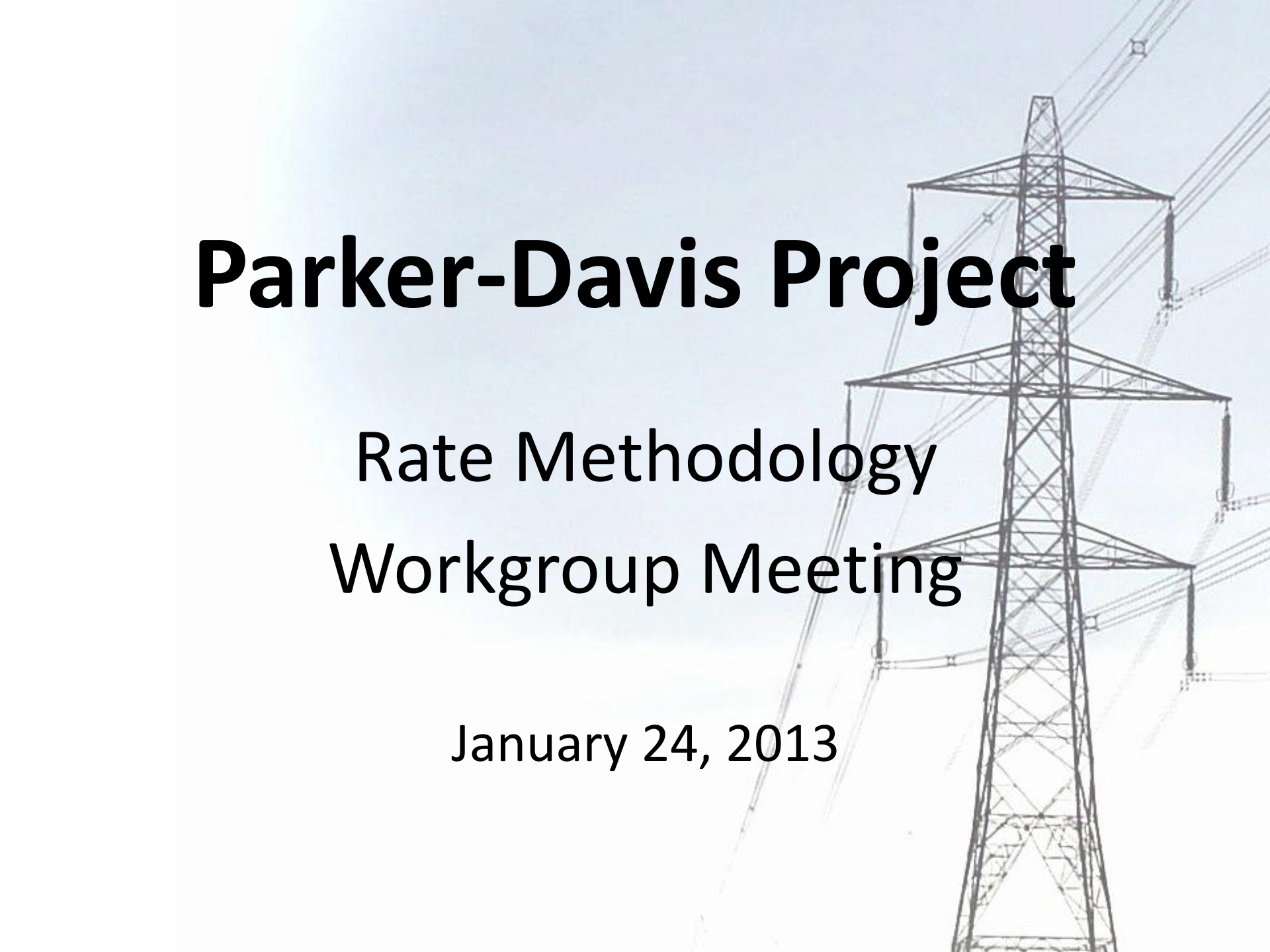


Parker-Davis Project

Rate Methodology Workgroup Meeting

January 24, 2013

Meeting Agenda

- Overview and Purpose
- DSW Efforts to Date
- Proposed Methodology Changes (3)
- Customer Suggested Changes
- Implementation
- Next Steps/Contact Info

Overview and Purpose

For several years, we have expressed our concerns regarding the upward pressure on our rates. These are two-fold:

- Short-Term: As carryover diminishes relative to costs, it reduces our ability to mitigate rate volatility from changes in annual costs and sales
- Long-Term: Rebuilding our aging transmission system results in higher P&I payments

Overview and Purpose

Short-Term and Long-Term Rate Pressure

Year	Carryover / System Costs	Transmission P&I
2007	90.9%	$16.4m
2008	93.2%	$16.2m
2009	88.8%	$18.7m
2010	84.2%	$17.9m
2011	81.0%	$18.8m
2012 (est.)	52.6%	$22.4m
2013 (est.)	42.5%	$22.8m

Overview and Purpose

- At our last rate meeting, we discussed the need to refine the rate methodology to counter the upward rate pressure
- We also committed to meet with you in a series of collaborative workgroup meetings to examine potential adjustments to our current rate methodology

DSW Efforts to Date

- When we first identified the rate pressure, we began to develop potential changes to the rate methodology
- Two-fold strategy:
  - Easily achievable refinements that will provide immediate relief to the short-term rate pressure
  - More complex changes to restructure project repayment and address the long-term pressure

DSW Efforts to Date

- Two proposed refinements for short-term pressure: 1) Interest Credit on Carryover and 2) Interest Credit on Negative IFI
- One proposed change to begin addressing long-term pressure: Recalculated Service Life
- We continue to work on ways to restructure project repayment and will present those at another meeting later this year

Interest Credit on Carryover

- A component of our annual interest expense is a credit (reduction) called “interest offset”
- Interest offset is intended to account for the difference between collecting revenues monthly while determining repayment annually
- Offset is like the “earnings” on revenues collected throughout the year and held in Treasury until those revenues are used toward repayment at the end of the year

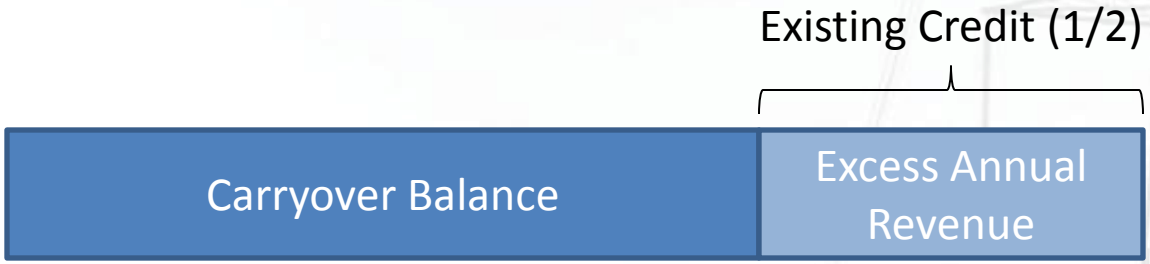
Interest Credit on Carryover

- The offset concept works for most power systems in Western because any excess revenues are applied toward repayment at the end of the year
- Incomplete for P-DP because excess revenues are held in carryover and not included in subsequent offset calculations
- We recommend expanding the offset concept to include interest credits on the carryover balance as well as interest credits on excess annual revenues

Interest Credit on Carryover

Existing Interest Offset Credit

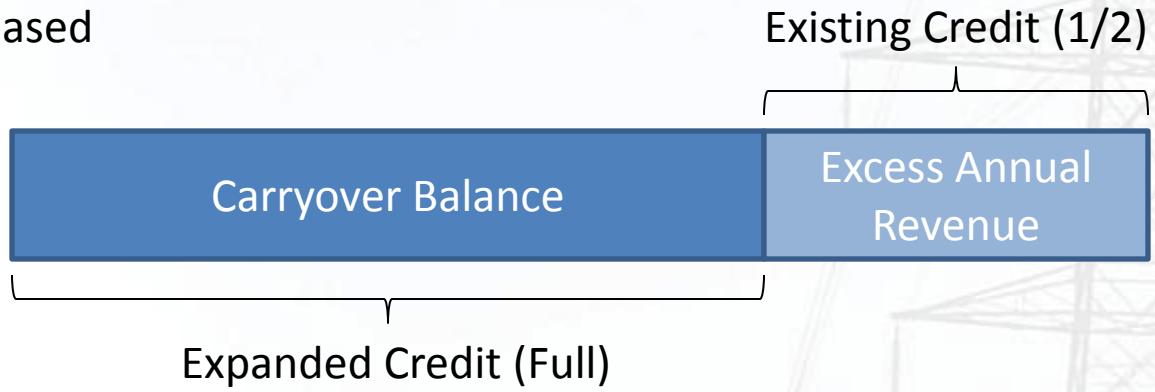
(Annual Revenue – Annual Expense) x Interest Rate x ½



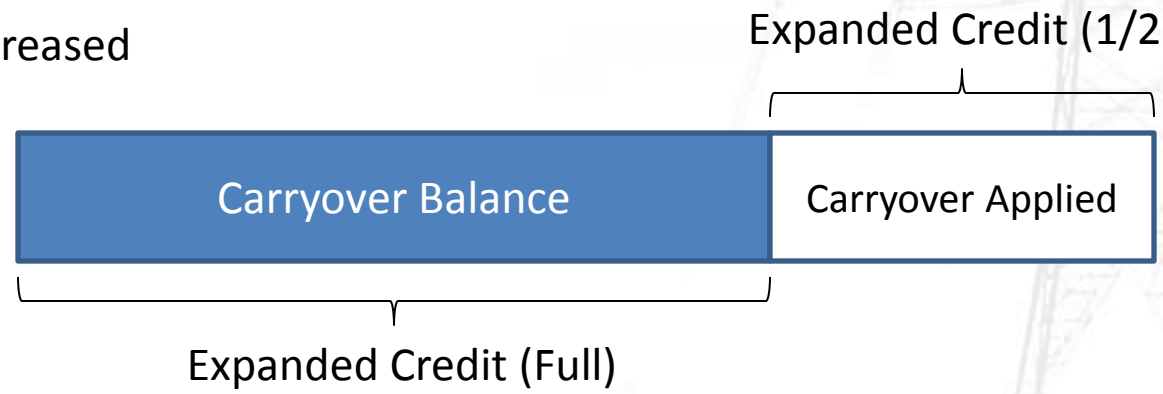
Interest Credit on Carryover

Expanded Interest Credit

Carryover is Increased



Carryover is Decreased



Interest Credit on Carryover

Estimated Additional Interest Credits

Year	Carryover Credit
1997 – 2011	$16.3m
2012 (est.)	$ 1.3m
2013 (est.)	$ 0.7m
2014 (est.)	$ 0.6m
2015 (est.)	$ 0.5m
2016 (est.)	$ 0.3m
2017 (est.)	$ 0.1m
Total	**$19.8m**

$17.6m immediately

$2.2m during rate window (based on last rate calc)

Interest Credit on Carryover

Thoughts, concerns, comments?

Interest Credit on Negative IFI

- When capitalized projects are completed, the cost of the project, with interest, is booked in our accounting system
- The booking in the accounting system triggers a corresponding entry in the PRS of Incremental Federal Investment (IFI)
- Occasionally, those costs are adjusted a year or two later as a result of a detailed review of the project costs (close-out process)

Interest Credit on Negative IFI

- These adjustments are also included in the PRS and netted against the original project cost
- Unfortunately, the PRS is not capable of crediting interest to prevent an overstatement of interest between the initial booking and the adjustment
- To correct this, we recommend calculating an interest credit for each historic and future negative IFI adjustment

Interest Credit on Negative IFI

Simplified Example of Interest Calculation

Year	IFI (Investment)	Unpaid Investment	Interest at 5.0%
2007	$1,000,000	$1,000,000	-
2008	-	$1,000,000	$50,000
2009	-	$1,000,000	$50,000
2010	$(80,000)	$920,000	$50,000
2011	-	$920,000	$46,000
2012	-	$920,000	$46,000

Overstatement of interest by $12,000 ($4,000 x 3 yrs)

Interest Credit on Negative IFI

Estimated Additional Interest Credits

Year(s)	Number of Negative IFIs	Total Value of Negative IFIs	Interest Credit
Pre-1991	6	$7.10m	$1,908,584
1991	2	$9.04m	$2,052,856
1992	1	$2.07m	$367,328
2007	3	$0.02m	$1,491
2008	1	$0.11m	$12,217
2009	2	$0.51m	$23,810
2010	5	$0.24m	$21,478
Total	**20**	**$19.09m**	**$4,387,764**

Interest Credit on Negative IFI

Thoughts, concerns, comments?

Recalculated Service Life

- In accordance with legislation and policy, original project assets are to be repaid within a 50-year period
- Replacements of those original assets are to be repaid over their useful service life, not to exceed 50-years
- Most power systems at Western use the Bureau/Western Replacements manual and a series of complicated formulas to determine the repayment period

Recalculated Service Life

- P-DP uses an older, although no less accurate, method of calculating a weighted average service life of assets
- The replacement service life was last calculated at 32 years during the 1997 public process to institute the existing rate methodology
- Given the considerable change in our power system assets since 1997, we recommend implementing a recalculated service life for replacements

Recalculated Service Life

Weighted Average Service Life Calculation

Property	FY11 Balance	Replaced in 50-yrs	Dollar / Life	Service Life (yrs)
Buildings/Roads	$66.5m	9.0%	$6.0m	47
Land & Rights	$9.4m	0.0%	-	-
Station Equipment	$176.0m	68.5%	$120.5m	29
Steel Towers/Poles	$47.2m	3.0%	$1.4m	50
Wood Poles & Conductor	$62.1m	13.8%	$8.6m	50
Communications Equip.	$53.2m	88.7%	$47.2m	12
Misc Equip.	$2.2m	3.7%	$0.1m	35
Remaining ≥ 50-yrs	-	-	$232.8m	50
Total	**$416.6m**		**$416.6m**	
Weighted Average Srvc. Life				**39.58**

Recalculated Service Life

Transmission P&I

Year	Current Service Life	Recalculated Service Life	Savings
2013	$22.8m	$21.5m	$1.3m
2014	$23.0m	$21.7m	$1.3m
2015	$23.4m	$22.1m	$1.3m
2016	$25.7m	$24.2m	$1.5m
2017	$27.7m	$26.0m	$1.7m
2018	$31.3m	$29.0m	$2.3m
2019	$31.5m	$29.7m	$1.8m
2020	$32.1m	$30.3m	$1.8m
2021	$37.2m	$35.0m	$2.2m

$7.1m total during rate window

(based on last rate calc)

$2.0m average per year outside rate window

Recalculated Service Life

Thoughts, concerns, comments?

Customer Suggested Changes

Implementation

- With appropriate concurrence, implement changes to provide relief to rate pressure for FY14 rate (this year)
- Develop more complex changes this year and implement in time for the FY15 rate
- We believe changes presented can be implemented without significant impact to the standard rate reporting documents
- We also believe the proposed changes are well founded and can pass audit scrutiny

Implementation

Unintended Consequences – Rate Volatility

Next Steps

- With customer support, continue to develop changes to repayment to address long-term rate pressure
- Develop and prepare analysis of customer suggested methodology changes
- Host second meeting to present repayment restructuring and customer suggested changes

Next Steps

- Present methodology changes at informal rate meeting for customers that were unable to attend these meetings
- Implement immediate rate relief changes in FY14 rate calculation
- Implement all other changes by FY15 rate calculation

Contact Information

Website: www.wapa.gov/dsw/pwrmkt/RateAdjust/Main.htm

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